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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Preliminary GNP figures for the second quarter of 1991 released by the Department of Commerce confirm that the economy might have pulled out of the recession. Real GNP grew at an annual rate of 0.4 percent after 6 months of decline. The main driving forces were the increase in consumer spending and the upturn in housing construction. Consumer spending jumped by an annualized rate of 3.6 percent in the second quarter after two quarters of decline, and housing construction rose by 3.7 percent after a full year of decline.

Nevertheless, tight credit and high consumer and business debt are likely to continue constraining consumer and business spending. Some economists observed that the increase in consumer spending in the second quarter might have been a one-time increase resulting from purchases deferred during the Gulf War. They also observed that the increase in consumer spending has outpaced income gains, thus causing saving rates to decline to 3.2 percent in the second quarter of 1991 from 4.2 percent. This deficit spending could mean that consumers might have to curtail purchases in coming months, and this cutback might retard future growth.

Recognizing that tight credit and slow money supply growth might hamper a strong recovery, the Federal Reserve forecast a real GNP growth rate of 0.75 percent to 1.0 percent in 1991 and a growth rate of 2.75 percent to 3.0 percent in 1992; and increase in consumer prices by 3.25 percent to 3.75 percent in 1991 and 3.0 percent to 4.0 percent in 1992; and a higher unemployment rate of up to 7.0 percent in 1991, falling to 6.5 percent in 1992. These forecasts are generally lower than private forecasts.

On the international scene, certain worldwide economic strains are complicating the task of the economic recovery. For example, demand for aid by the former East bloc countries embracing democracy and free-market ideologies has increased, especially since the transition to a market economy has proved to be much harder and more painful than anticipated. East Europe may therefore be acting as a drain on the supply of investment capital. Another concern is the many developing countries that are in financial trouble and demanding debt relief. According to a recent economic study by the United Nations, the world economy is expected to stagnate during the remainder of 1991 and only recover slightly in 1992, largely because of the recession in Eastern Europe and the Soviet Union, unless the industrialized countries expand their output and spending to revive world economic growth. However, the United States, Canada, the United Kingdom, and France are in recession and government spending increases are constrained by the tight fiscal stances adopted to

reduce the large budget deficits in these countries. Germany and Japan are deeply worried about rekindling inflation and are reluctant to cut their interest rates to further stimulate their heated economies.

Economic Growth

The annualized rate of real economic growth in the United States in the second quarter of 1991 was 0.4 percent, advancing from a 2.8 percent rate of decline in the first quarter of 1991. In the fourth quarter of 1990, the growth rate was revised to show a decline of 1.6 percent from 2.1 percent estimated earlier. The real growth rate was 1.4 percent in the third quarter, 0.4 percent in the second quarter, and 1.7 percent in the first quarter of 1990. The real growth rate for all of 1990 was 0.9 percent. The annualized rate of real economic growth in the first quarter of 1991 was -2.4 percent in the United Kingdom, 9.7 percent in Germany, 11.2 percent in Japan, -0.1 percent in France, -4.6 percent in Canada, and 0.7 percent in Italy.

Industrial Production

U.S. industrial production increased by 0.7 percent in June 1991 after upwardly revised gains of 0.7 percent in May and 0.5 percent in April 1991. The June 1991 rise resulted from a significant increase in the output of motor vehicles and parts, goods for the home, and construction supplies and materials. U.S. industrial production increased by 1.7 percent at an annual rate in the second quarter of 1991 after falling sharply in the two preceding quarters. The June 1991 index was 2.9 percent lower than it was in June 1990. Capacity utilization in manufacturing, mining, and utilities increased in June 1991 by 0.3 percent, to 79.3 percent, after an increase of 0.4 percent in May 1991.

Other major industrial countries reported the following annual growth rates of industrial production: for the year ending June 1991, Italy reported a decline of 0.9 percent; for the year ending May 1991, Germany reported an increase of 3.9 percent and Japan reported an increase of 2.0 percent; and for the year ending April 1991, France reported a decrease of 0.3 percent, the United Kingdom reported a decrease of 6.8 percent, and Canada reported a decrease of 5.0 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.2 percent in June 1991. The consumer price index rose by 4.7 percent during the 12 months ending June 1991.

During the 1-year period ending June 1991, consumer prices increased by 6.7 percent in Italy and 3.5 percent in Germany. During the 1-year period ending May 1991, consumer prices increased by 5.8 percent in the United Kingdom, 3.2 percent in France, 6.2 percent in Canada, and 3.4 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States rose to 7.0 percent in June from 6.9 percent in May 1991.

In June 1991, Germany reported 6.3 percent unemployment and Canada reported 10.5 percent. In May 1991, Japan reported 2.0 percent; the United Kingdom, 7.9 percent; Italy, 9.8 percent; and France, 9.5 percent unemployment. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 1 shows macroeconomic projections for the U.S. economy for April-December 1991, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average forecasts point to a moderate rebound in GNP nominal and real growth rates starting the third quarter of 1991 and continuing throughout the remainder of the year. There are many possible reasons for the sluggish recovery in 1991: the general slowdown in the world economy, particularly in the industrialized countries; the sluggish rise in consumer spending, particularly consumer spending on durable goods, because of high consumer debt; and the expected low level of investment because of reduced business expectations and the reduction in

available credit caused by the Savings and Loan crisis. However, several dynamics appear to be working in favor of future stronger growth. The decline in interest and inflation rates in the first half of 1991 may encourage a rise in consumer and business spending. An expected surge in export growth as a result of the anticipated improvement in industrial countries' economic conditions should also increase foreign demand for U.S. exports. Finally, the low level of inventories now held by businesses could prompt a strong buildup of business inventories once a recovery starts. Moreover, the rise in housing starts is expected to be the key to a broad economic recovery. The average of the forecasts predicts a slight increase in the unemployment rate in the second and third quarters of 1991 and a decline afterwards. Inflation (measured by the GNP deflator) is expected to dip in the remainder of 1991.

The U.S. merchandise trade deficit increased slightly in May 1991 (by \$100 million), due largely to the increase in oil imports. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

When oil is included, the seasonally adjusted U.S. merchandise trade deficit in current dollars increased by 2.2 percent in May 1991, to \$4.6 billion from \$4.5 billion in April 1991. The May 1991 deficit was 38 percent lower than the \$7.4 billion average monthly deficit registered during the previous 12-month period and 44 percent lower than the \$8.2 billion deficit registered in May 1990. When oil is excluded, the May 1991 merchandise trade deficit decreased by 17.6 percent over the previous month.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1991

Quarter	UCLA Business Fore- casting Project	Merrill Lynch Capital/ Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore- casts
GNP current dollars					
April-June	2.7	4.3	4.1	3.8	3.7
July-September	4.3	5.2	6.6	4.7	5.2
October-December	6.2	8.4	6.2	5.9	6.7
GNP Constant (1982) Dollars					
April-June	-0.3	-0.4	1.3	1.5	0.5
July-September	2.3	0.9	3.8	2.8	2.4
October-December	3.8	4.6	3.3	3.5	3.8
GNP deflator index					
April-June	3.0	4.7	2.8	3.3	3.4
July-September	2.0	4.2	2.7	1.8	2.7
October-December	2.2	3.6	2.8	2.3	2.7
Unemployment, average rate					
April-June	6.8	6.7	6.8	6.8	6.8
July-September	6.9	7.0	6.9	7.0	6.9
October-December	6.7	6.9	6.7	6.8	6.8

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: July 1991.

Source: Compiled from data provided by The Conference Board. Used with permission.

Table 2
U.S. Merchandise Trade, Seasonally adjusted.

Item	Exports		Imports		Trade balance	
	April 91	May 91	April 91	May 91	April 91	May 91
Current dollars—						
Including oil	35.6	35.3	40.1	39.9	-4.5	-4.6
Excluding oil	35.6	35.3	37.3	36.7	-1.7	-1.4
1987 dollars	33.2	33.0	37.3	37.2	-4.0	-4.3
Three-month-moving average	34.4	35.0	39.1	39.4	-4.7	-4.4
Advanced-technology products (not seasonally adjusted)	8.5	8.1	5.1	5.1	+3.4	+3.0

U.S. TRADE DEVELOPMENTS

In May 1991, both exports and imports declined but exports declined faster. Including oil, seasonally adjusted exports in current dollars declined by \$329 million in May, to \$35.3 billion, and imports declined by \$261 million, to \$39.9 billion. Excluding oil, U.S. imports declined from April to May 1991 by \$700 million, to \$36.7 billion. The U.S. oil import bill rose to \$3.22 billion in May from \$2.81 billion in April 1991.

In seasonally adjusted constant dollars, the trade deficit rose by \$220 million from April to May 1991. The trade surplus in advanced-technology products dropped to \$3 billion in May 1991 from

\$3.4 billion in April 1991. (Advanced-technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields—for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Nominal export changes and trade balances in May 1991 for specified major exporting sectors are shown in table 3. The sectors that recorded the most export increases in May 1991 include inorganic chemicals, telecommunications, vehicle parts, iron and steel mill products, and organic chemicals. Sectors that recorded the largest trade surpluses over the period January-May 1991 include airplanes, scientific instruments, airplane parts, specialized industrial machinery, and organic and inorganic chemicals.

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors,
January 1990-May 1991

Sector	Exports		Change		Share of total		
	January- May 1991	May 1991	January- May 1990	over January- May 1990	May 1991	over April 1991	Trade balances January- May 1991
ADP equipment & office machinery ..	10.9	2.1	8.2	-3.2	6.2	-0.62	
Airplanes	8.8	1.8	7.5	-19.3	5.0	7.61	
Airplane parts	4.1	0.8	2.5	1.2	2.3	2.27	
Electrical machinery	12.5	2.6	7.3	0.8	7.1	-1.55	
General industrial machinery	7.0	1.5	4.8	-1.9	4.0	0.84	
Iron & steel mill products	1.7	0.4	37.8	5.3	1.0	-2.00	
Inorganic chemicals	1.8	0.4	15.8	13.1	1.0	0.48	
Organic chemicals	5.1	1.0	17.7	4.0	2.9	1.61	
Power-generating machinery	6.8	1.4	2.1	-6.2	3.9	1.02	
Scientific instruments	5.5	1.1	11.1	2.7	3.2	2.84	
Specialized industrial machinery	7.0	1.5	6.6	-3.9	4.0	1.92	
Telecommunications	3.9	0.8	9.3	7.8	2.2	-4.45	
Textile yarns, fabrics and articles	2.2	0.5	6.7	2.1	1.3	-0.50	
Vehicle parts	5.6	1.3	-8.1	6.5	3.2	-0.13	
Other manufactured goods ¹	10.1	2.1	9.5	-0.5	5.8	-1.84	
Manufactured exports not included above	41.0	8.7	10.8	0.6	23.4	-28.81	
Total manufactures	134.1	28.2	8.2	-1.1	76.7	-21.31	
Agriculture	16.3	3.0	-7.7	-1.6	9.3	6.60	
Other exports	24.6	5.0	10.7	9.4	14.0	-5.70	
Total	175.0	36.2	6.8	0.2	100.0	-20.41	

¹ This is an official U.S. Department of Commerce commodity grouping.

Note: Because of rounding, figures may not add to total shown.

Source: U.S. Department of Commerce News (FT900), July 1991.

The U.S. agricultural trade surplus increased to \$1.1 billion in May from \$1.0 billion in April 1991.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4. The United States experienced small increases in bilateral merchandise trade deficits in May 1991 with Canada, Germany, the Newly Industrializing Countries (NICs), China, and OPEC and a decline in trade surpluses with the EC, Western Europe, and the U.S.S.R. The deficit with Japan declined by \$920 million. On a cumulative year-to-date basis, the United States experienced improvements in its bilateral trade balances from a year earlier with almost all trading partners except Canada and China.

INTERNATIONAL TRADE DEVELOPMENTS

Caribbean Basin Trade Preferences: Impact of a United States-Mexican FTA

Caribbean Basin Trade Preferences: Impact of a United States-Mexican FTAC Caribbean officials are increasingly concerned about the future impact a United States-Mexican free-trade agreement (FTA) might have on trade and investment activity in the Caribbean Basin. During interviews conducted by USITC staff in Jamaica, the Dominican Republic, Haiti, and the Bahamas in June 1991, several Caribbean business and Government officials stated that an FTA will erode trade preferences currently granted under the U.S. Caribbean Basin Economic Recovery Act (CBERA),¹ and will make the Caribbean a relatively less attractive destination for foreign investment.

¹ The CBERA provides duty-free or reduced-duty entry into the United States for certain products from designated eligible Caribbean Basin countries. The CBERA became operative on Jan. 1, 1984. Originally scheduled to terminate on Sept. 30, 1995, the CBERA was extended indefinitely and its scope was expanded by the Caribbean Basin Economic Recovery Expansion Act of 1990, signed into law on Aug. 20, 1990.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1990-May 91

(Billion dollars)

Area or country	May 1991	April 1991	May 1990	January- May 1991	January- May 1990
Japan	-2.43	-3.35	-3.08	-15.98	-16.67
Canada	-0.35	-0.29	-0.28	-2.01	-1.13
Germany	-0.40	-0.01	-0.55	-1.85	-3.53
EC	+1.37	+2.01	+0.54	+8.95	+4.04
Western Europe	+1.32	+2.11	+0.57	+9.07	+3.09
NICs ¹	-0.77	-0.76	-1.59	-3.32	-7.13
U.S.S.R.	+0.07	+0.25	+0.30	+1.18	+1.60
China	-0.74	-0.67	-0.79	-3.60	-3.30
OPEC	-1.37	-0.98	-1.77	-6.66	-9.74
Total trade balance	-3.77	-3.42	-7.31	-20.41	-35.99

¹ NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Note.—The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: U.S. Department of Commerce News (FT-900), July 1991.

Access to U.S. Markets

Officials contacted were generally pessimistic about the ability of Caribbean products to remain competitive in U.S. markets under an FTA, particularly given the relatively higher costs of shipping goods from the Caribbean. Mexico's proximity to the United States allows products from that country to be transported to the United States by land—more cheaply and faster than shipping by air or by sea from the Caribbean. In addition, articles shipped from the Caribbean encounter delays in reaching U.S. markets because most air and sea links originating in the Caribbean are routed through Miami, whereas traffic between Mexico and the United States encounters no such bottleneck. Mexican goods also do not face the additional packaging costs Caribbean products may incur as a result of the longer transportation time.

Nevertheless, several of the officials interviewed stated that Caribbean locations will continue to offer investors certain geographic advantages in gaining access to some U.S. markets. In contrast to Mexico's proximity to western and southwestern U.S. markets, officials noted that the Caribbean is closer to Miami and U.S. east coast markets.

Low-Cost Labor

The majority of interview respondents stated that few Caribbean countries are able to compete with Mexico's low-cost labor. Several individuals expressed the concern that an FTA, together with Mexico's low-cost labor, would further enhance Mexico's appeal as a destination for foreign investment to the detriment of some Caribbean Basin countries.

Table 5 compares minimum wages in Mexico and in selected CBERA beneficiaries. Twelve CBERA beneficiaries have wages ranging from marginally above to as much as four times higher than Mexico's minimum wage. However, seven CBERA beneficia-

Table 5
Minimum wage in selected CBERA beneficiaries and in Mexico, 1990

Minimum wage (Dollars per hour)	Country	Minimum wage (Dollars per hour)	Country
2.86	Aruba	0.75	Guatemala
2.20-3.00	Bahamas	0.59-0.78	Panama
2.14	Trinidad & Tobago	0.67	Mexico
1.18-3.08	Neth. Antilles	0.50	Dominican Republic
1.10	Antigua & Barbuda	0.50	El Salvador
1.08	St. Kitts-Nevis	0.48	Grenada
0.87	Belize	0.39	Haiti
0.76	St. Vincent	0.38	Guyana
0.71-0.84	Costa Rica	0.33	Honduras
0.75	Dominica	0.27	Jamaica

Source: U.S. Department of Commerce, International Trade Administration, *1990 Caribbean Basin Investment Survey*, app. 1, p. 85. Data on Mexico based on information provided by U.S. Department of Commerce.

ries have minimum wages lower than Mexico's—including the largest exporter under the CBERA, the Dominican Republic. If Mexican wages rise in the longer term as a result of an FTA, Mexican labor could become significantly more expensive relative to alternative labor sources in many Caribbean Basin countries.

Several interview respondents with experience operating both in the Caribbean and in Mexico said that Caribbean products are often of better quality than comparable Mexican goods. They also reported that labor turnover is lower in the Caribbean because Mexico's proximity to the United States and the relatively porous U.S.-Mexican border foster migration and labor transience. Some respondents added that, unlike Mexico, the English-speaking Caribbean Basin countries are well placed to provide labor for offshore service industries such as data processing and telemarketing, for which English-language use is important for access to U.S. markets.

Export Competition

Most interview respondents were generally pessimistic in assessing the prospects for Caribbean exports to the United States if a U.S.-Mexican FTA is implemented. However, one Jamaican businessman said that duty-free Mexican products would pose little threat to many Caribbean exports. He noted that Jamaica's leading exports either are not produced in Mexico, such as bauxite and alumina, or are handled through special bilateral trade arrangements, as is the case with sugar.

Table 6 shows Caribbean and Mexican competition in specific products they both exported to the U.S. market in 1990. Four of the leading U.S. imports from Mexico—peppers, melons, electrical switching apparatus, and medical and surgical instruments—were also leading U.S. imports entering duty-free under the CBERA. These products represented from 3 percent to as much as 25 percent of total U.S. duty-free imports under the CBERA for five Caribbean Basin countries—Costa Rica, the Dominican Republic, El Salvador, Haiti, and St. Vincent and the Grenadines.

An FTA stands to make the dutiable Mexican products—peppers, melons, and electrical switching apparatus—less expensive in the United States. Combined with lower transportation costs, this cost saving could result in Mexican items displacing some competing Caribbean products. Because surgical and medical instruments imported from Mexico already receive duty-free treatment under the U.S. Generalized System of Preferences (GSP) program an FTA will not affect the price of this Mexican product on the U.S. market. Moreover, U.S. imports from the major Caribbean supplier—the Dominican Republic—increased from 17.6 percent of combined imports from the Dominican Republic and Mexico in 1989 to 26.0 percent of combined imports in 1990 (table 7). The Dominican Republic's success in increasing its share of U.S. imports during 1990 holds the possibility that low wages and high product quality may emerge as key factors enabling Caribbean Basin countries to maintain their U.S. market shares under a United States-Mexican FTA.

Liberalization of Foreign Trade in Czechoslovakia, Hungary, and Poland: Progress and Prospects

Since 1989, market reforms and improved commercial relations with the West have led to the radical liberalization of foreign trade regimes in Czechoslovakia, Hungary, and Poland. The state's absolute control over foreign trade in the three central European countries (CECs) included determining the commodity composition and geographic distribution of trade flows. Centralized control has now given way to the use of traditional instruments of trade policy, such as reliance on the establishment of realistic exchange rates linked with efforts to make national currencies convertible, and use of tariffs, quotas, and licenses to meet goals of national economic policy. According to some estimates, central state agencies currently control only one-fifth of all export and import transactions in these countries.

All three CECs enjoy substantial current account convertibility of their national currencies. Although some restrictions are enforced to prevent deterioration in the international balance of payments, for the

Table 6
Leading U.S. imports for consumption from Mexico also supplied by CBERA beneficiaries, 1990¹

(1,000 dollars, unless otherwise indicated)

HTS No.	Description	Mexico	CBERA beneficiaries	Imports	Percent of Imports
0709.60	Fruits of genus capsicum or the genus pimenta (peppers) ²	\$136,031	St. Vincent/Grenadines	48	3.2
0807.10	Melons, including cantaloupes & watermelons, fresh ³	87,031	Costa Rica	10,188	4.7
			El Salvador	1,752	6.2
			Honduras	6,845	10.1
8536.90	Electrical apparatus n.e.s.i. for switching ⁴	174,768	Haiti	16,063	25.2
9018.90	Instruments & appliances for medical, surgical use ⁵	152,506	Dominican Republic	53,535	17.2

¹ Leading imports among top 30 U.S. imports from Mexico and top 5 U.S. imports from specified Caribbean countries.² Products from Mexico are subject to the column 1 general duty of \$0.055/kg.³ The only Mexican products in this subheading granted duty-free entry into the United States (under the U.S. GSP program) are HTS Nos. 0807.10.30, watermelons. The following column 1 general duties apply for other Mexican products in this subheading: 35 percent for HTS item 0807.10.20 (cantaloupes, entered between Sept. 16 and July 31, also exported by Costa Rica and Honduras) and 8.5 percent for HTS item 0807.10.70 (other melons, entered between Dec. 1 and May 31, also exported by El Salvador).⁴ Products from Mexico are subject to the column 1 general duty of 5.3 percent.⁵ Products from Mexico enter the United States duty-free under the GSP program.Source: Compiled from official statistics of the U.S. Department of Commerce and USITC, *Harmonized Tariff Schedule of the United States* (1990), USITC publication 2232, Sept. 30, 1990.

Table 7
U.S. duty-free imports of surgical and medical instruments (HTS 9018.90) from the Dominican Republic and Mexico, 1989 and 1990

Source	1989		1990	
	Imports	Percent of total	Imports	Percent of total
Mexico	121,010	82.4	152,506	74.0
Dominican Republic	25,851	17.6	53,535	26.0
Total	\$146,861	100.0	\$206,041	100.0

Source: Compiled from official statistics of the U.S. Department of Commerce.

most part enterprises and individuals in the CECs can freely obtain convertible currencies for importing. However, with some exceptions, exporters in all three countries must still exchange their convertible currency revenues for local currency at the prevailing rate of exchange.

The CECs now enforce tariff schedules with relatively low duties. According to official Government sources from the three countries, the average nominal tariff rate (the unweighted arithmetic average of rates) is 4.6 percent for Czechoslovakia, 11.8 percent for Poland, and 13 percent for Hungary. (The unweighted arithmetic average of tariff rates is 6.8 percent for the United States and 6.5 percent for both the EC and Japan.) Polish and Hungarian trade officials point out that, as a result of the actual composition of their respective imports and the enforcement of tariffs lower than the maximum for many products, the duties levied as a percentage of imports will be significantly smaller than the respective nominal rates during 1991. In addition to its regular tariffs, Czechoslovakia levies a 15 percent surcharge on many consumer product imports. Hungary fixes an absolute dollar ceiling on the importation of consumer goods, and Poland recently introduced special tariffs on food imports. According to some estimates, the combined tariff and nontariff barriers in the three countries are equivalent to a 12 percent average tariff rate.

The CECs require licenses for both the importation and exportation of commodities covered by international agreements (e.g., weapons, explosives, radioactive materials, etc.). Import and export licenses are also required for selling some newly decontrolled high-technology commodities to these formerly communist countries under agreements reached among the 17 members of the Coordinating Committee for Multilateral Export Controls (COCOM). Import licenses for the decontrolled items in the CECs are required to speed up the exporting Western nation's approval of sales to them, and export licenses in the three countries are required to keep track of the reexportation of these items under COCOM guidelines. All three countries require export licenses for goods covered by voluntary export restraint agreements or foreign import quotas, and for goods in short supply (e.g., energy products, some food items, medical products, etc.). Although there are no reliable estimates regarding the proportion that license requirements represent in total exports and imports of the CECs, analysts so far have not found licensing requirements by the three countries excessive or objectionable.

The CECs have eliminated most schemes of direct export subsidization; the current level of export support appears to be negligible in the three countries. However, critics of the region's current trade policies

charge that the state will have the incentive as well as the opportunity for the subsidization of exports as long as it owns the majority of industrial enterprises and major trading companies. Some analysts also argue that price controls on some basic inputs, such as energy and transportation, represent across-the-board production subsidization that tends to help, at least temporarily, the region's expanding export sector.

The Governments of all three CECs say they intend to continue liberalizing their trade regimes. Hungarian and Polish officials say that tariff rates are set to decline, and officials from Czechoslovakia predict that the import surcharge on consumer goods will be eliminated by the end of 1991. The CECs claim they conscientiously inform GATT about every alteration in their trade policies and emphasize their commitment to GATT principles and goals. Czechoslovakia has been a member of GATT since 1948, Poland since 1967, and Hungary since 1974.

Nevertheless, many analysts assert that the current trade situation and the overall short-term economic outlook in the three countries are not conducive to further liberalization of their trade regimes. According to Wharton Econometric Forecasting Associates (WEFA), the \$3 billion surplus in Poland's 1990 merchandise trade account will switch to a deficit of \$1.6 billion during 1991, and the rough balance in Czechoslovakia's 1990 merchandise trade will give way to a \$1.4 billion deficit during 1991. WEFA also predicts that Hungary's surplus will decline from \$0.6 to \$0.5 billion during the same period. Projections of faster growth in imports than exports account for the forecast changes in the trade balances of Hungary and Poland during 1991, and growth in imports, combined with a decline in exports is predicted to cause Czechoslovakia's merchandise trade balance to deteriorate. Compounding the problems of import growth without matching expansion of export markets, producers in the three countries are also facing continued recession. According to WEFA, during 1991, real Gross Domestic Product (GDP) will decline by 7.4 percent in Czechoslovakia, by 3.4 percent in Hungary, and by 2.8 percent in Poland.

The growing pressure exerted on many economically fragile producers by intensified foreign competition in shrinking national markets is expected to strengthen the relatively new industrial lobbies in the CECs. Analysts predict that once industrial lobbies gain strength in these countries they will try to use their influence to demand protection against foreign imports and for the enactment of export-support programs.

The CECs are currently creating the legislative framework for the protection of their domestic industries. Based on GATT article VI (Antidumping and Countervailing Duties), Poland and Hungary have established the legal mechanism for dealing with domestic complaints about dumping and subsidization of imports. Following the pattern set by GATT article XIX (the "Safeguard" clause), Hungary has also

established the mechanism for dealing with complaints of market disruption. The Polish Government has begun work on legislation to handle complaints of market disruption, and the Government of Czechoslovakia has begun similar work to handle complaints of dumping, subsidization, and market disruption. However, not one petition alleging dumping or subsidization in Poland or Hungary or market disruption in Hungary has been filed thus far.

Some analysts also fear that tariff reductions in the CECs through free-trade agreements currently under negotiation with the European Community and the European Free Trade Association (EFTA) could prompt these countries to raise their tariff walls against non-European suppliers. If realized, such a development would tend to discourage some U.S. exports to the CECs but could encourage U.S. direct investment in these countries or elsewhere in Europe.

Although the short-term prospects for trade liberalization appear uncertain in the CECs, the longer term prospects are bright. Analysts expect that an imminent and decisive expansion of the private sector in the CECs, coupled with an anticipated economic recovery by 1993, will open new trade and investment opportunities for U.S. firms in these countries. Analysts also expect that the three countries' national currencies will become fully convertible by the end of the decade.

United States, EC Discuss Standards, Testing, and Certification Issues

For the third time in the past 2 years, Secretary of Commerce Robert Mosbacher and Vice President of the EC Commission Martin Bangemann met to discuss a series of trade issues concerning standards, testing, and certification. The meeting, which took place on June 21 in Washington, also included senior representatives of European and U.S. standards organizations, as well as officials from the EFTA countries. The focus of the discussion was on conformity assessment and standardization development—two issues that have been critical in determining the impact of the EC's 1992 program on U.S. industry. Despite some lingering disagreements of principle, the two sides appear to be building a basis for eventual EC acceptance of U.S. tests in key product areas and moving towards common ground on the need to strengthen the international standards system. This progress should be good news for U.S. firms that seek to export to the EC products ranging from telecommunications equipment to medical devices.

Problems associated with conformity assessment have topped the list of U.S. concerns about standards-related barriers in the integrated EC market. Conformity assessment refers to the range of activities—sampling procedures, testings, inspection, certification, laboratory accreditation, etc.—used to determine whether products comply with regulations and standards. U.S. testing laboratories and U.S. manufacturing firms have been stressing the importance of EC acceptance of U.S.-generated test results,

but with little success. The fear is that being forced to go through EC-based labs will result in increased costs and delays, making it difficult or impossible to serve the EC market from U.S.-based facilities. A key question is whether U.S. manufacturing facilities and testing labs will be authorized to assess whether products sold in the Community conform to mandatory health and safety requirements. The EC's current position is that non-EC firms can gain this privilege only through mutual recognition agreements (MRAs) between the EC Commission and foreign governments.

A February 27 draft internal document from the EC Commission clarifies the terms and conditions for negotiating these MRAs, but the document is unclear regarding the role of third country governments in MRAs. In formal comments submitted to the EC on this document in June of this year, the U.S. Government sought clarification from the EC on this point. The U.S. concern is that EC insistence on particular types of Government guarantees may make it difficult for the United States to conclude such agreements.² In the meeting, the EC seemed to indicate that it will expect some form of Government guarantee. However, the exact form of this involvement is unclear at this time.

In response to this EC expectation, Secretary Mosbacher proposed that the Department of Commerce provide a U.S. Government assurance that it believed contained all the elements required by the EC. Specifically, the Department's National Institute of Standards and Technology (NIST) has offered to guarantee the technical competence of U.S.-based conformity-assessment bodies, based on accreditation that such bodies conform with relevant international guidelines. This service would be available, on request, to both Government agencies and private bodies wishing to have their test results directly accepted by European regulatory officials.

The EC accepted the proposal as a positive sign of U.S. efforts to strengthen relations over conformity assessment and agreed to open preliminary discussions on mutual recognition agreements this fall. Formal negotiations are to begin once the EC's Council of Ministers has agreed on negotiating mandates for the EC Commission. These negotiating mandates are likely to be presented to the Council of Ministers around September and a final mandate could be agreed upon by early 1992. The first products on which MRAs are likely to be reached are active implantable medical devices, electromagnetic compatibility, and some telecommunications apparatus.

² The difficulty arises from varying degrees of U.S. Government involvement in conformity assessment. In some cases, U.S. regulatory agencies, such as the Food and Drug Administration, conduct all conformity-assessment activities themselves. However, others, such as the Occupational Safety and Health Administration, delegate these tasks to private bodies that meet certain criteria. Some product areas covered by EC technical regulations are either not regulated at the Federal level or are not regulated at all, and therefore the only Federal Government involvement would be something like the accreditation program offered by the National Institute of Standards and Technology.

In December 1989, the EC laid out three preconditions to the negotiation of MRAs, including that there be a "balanced situation" between the signatories. It has been a longstanding concern of U.S. industry that "balanced situation" may be interpreted by the EC Commission as meaning equivalent trade-flow or other benefits. The U.S. Government has consistently opposed requirements for reciprocity and has strongly urged the EC to apply the principle of national treatment in its place. However, in their communique following the meeting, the two leaders implicitly recognized the "mutual" nature of any such agreement by stating that they would entail, "inter alia, designated conformity assessment entities in the United States [being allowed] to perform the full range of required conformity assessment procedures under the EC directives and EC bodies participating fully in U.S. conformity assessment systems."

Subcontracting of conformity-assessment procedures by EC "notified bodies" (officially designated EC labs), an issue addressed by an EC Commission draft document of January 14, 1991, offers the only other means by which the EC will accept U.S.-generated test results. Although the subcontracting draft document represents substantial progress in laying out the conditions for subcontracting, the U.S. Government has formally expressed concern that the strict limitations placed on the scope of functions that can be subcontracted effectively discourages the use of the subcontracting option, particularly in quality assurance. The June meeting revealed that EC policy on subcontracting is still evolving and that more specific subcontracting guidelines will be attached to the text of the mandates on MRAs that the Council of Ministers still must pass. Recent reports indicate that the EC Commission is proposing a more flexible approach towards subcontracting in quality insurance, permitting auditing of quality assurance systems to be conducted by subcontractors to European-based notified bodies. This is heartening news for representatives of U.S. industries such as medical devices, for which quality assurance is required. However, those industries are still urging the EC to permit initial quality system assessments—the most time-consuming and costly portion of the process—to be done on a subcontract basis.

In relation to standardization development, the United States and Europeans reiterated their commitment to implement international standards to the greatest possible extent both in product legislation and for purposes of public procurement. The United States supports the EC stance on the use of international standards since the United States at least has a seat at the table when formulating such standards. However, during the meeting, the U.S. Government pointed out that if international standards are to support business, improvements in the process for developing such standards must be made. Because it is a "one country, one vote" system, the EC and EFTA easily outvote the United States in some international standards forums. Moreover, the slowness of the process often makes it difficult to influence impending EC standards by initiating international stan-

dards-development work. The EC concurred, and the two sides agreed to complete a joint report recommending improvements. The report, which is to be completed by December 1991, will be written by representatives of the private U.S. and European standardization and certification organizations and NIST.

In addition to the joint report, private sector U.S. standards organizations and the European standards firms collectively committed to fulfill a number of other objectives, among them:

- Promote the faster development of international standards;
- Identify priority areas in which international work to develop standards could be intensified in order to promote international trade; and
- Implement to the greatest possible extent international standards.

Better access to EC standards development through the acquisition of more timely and complete information about draft standards is a central U.S. aim. Currently, the United States often receives EC standards activities information much too late, and as

a consequence the United States is often unable to influence standards development. There have been instances when discriminatory or difficult-to-meet standards have been adopted by the EC to the disadvantage of U.S. producers. During the meeting, Secretary Mosbacher announced that NIST, in cooperation with European standards-developing organizations, will develop a new information-exchange system that is supposed to involve U.S. industry and standards developers in a more timely manner than is the case with the present system, put in place by the American National Standards Institute.

On the whole, the June 21 meeting and related developments represent some progress in addressing U.S. concerns about the 1992 program, notably in conformity assessment. Although the meeting did not fundamentally alter some previous EC positions that have been a source of concern to the United States, the two sides agreed to move forward on negotiating MRAs and to work jointly on improving the international standards system. The agreements seem to be evidence that regardless of their philosophical differences, the EC and United States are dealing pragmatically with some of the issues raised for U.S. exporters by the 1992 program.

SPECIAL FOCUS

Role of Standards in NAFTA Talks

How technical regulations and standards are developed and enforced will be an important issue in the ongoing trilateral negotiations on a North American free trade agreement (NAFTA). Such regulations and enforcement procedures are necessary to protect the environment, health and safety, and consumers. As more visible forms of protection, such as tariffs and import-licensing requirements, are removed, it is also important to ensure that regulations and voluntary standards are not used as more subtle barriers to cross-border trade. As the experience of the European Community shows, differences in standards and testing procedures, whether or not legitimate, tend to limit the potential benefits of otherwise unified markets.

At present it does not appear that the regulatory aims of the United States in the negotiations—as spelled out in the Administration's May 1 "Action Plan"—will conflict with its potential market access goals. However, perhaps more so than in other trade negotiations, there could be a tension between the need for confidence building and the desire to facilitate trade. The EC has responded to this dilemma by setting minimum levels of protection in areas such as the environment and by undertaking the laborious task of harmonizing regulatory and commercial requirements among its 12 sovereign members. An EC-like solution to regulatory disparities does not appear to be in the cards for North America, but the process is still likely to result in some degree of convergence of standards and conformity-assessment procedures among the United States, Canada, and Mexico.

There is reason to believe that a primary goal of the United States will be to raise Mexican standards and substantially improve enforcement of them. This was one of the key Congressional concerns expressed during the fast-track debate about broader issues like the environment. The sense-of-the-Congress resolution sponsored by Majority Leader Richard Gephardt, which received an overwhelming (329 to 85) endorsement in the House on May 23, made it plain that U.S. legislators will be watching to ensure that the administration fulfills its May 1 "Action Plan" for addressing concerns about the environment, labor practices, and working conditions. (For a discussion of these concerns, see *IER*, June 1991.) Moreover, the resolution stressed that "a NAFTA must permit the United States [to enforce] strict health and safety standards" for agricultural commodities. In the May 1 plan, the administration promised to ensure that there would be no lessening of U.S. protections in these areas as a result of a NAFTA.

U.S. Regulatory Concerns

Efforts to address the concerns raised during the NAFTA debate about differing standards for regulated products and occupational health and safety will take place across a broad spectrum, both within the context of NAFTA negotiations and separately. Representatives of the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Agriculture's Agricultural Phytosanitary and Health Inspec-

tion Service (APHIS) meet regularly with their Mexican counterparts to explore environmental and food safety issues.

U.S. Secretary of Labor Lynn Martin and her counterpart from Mexico signed a Memorandum of Understanding (MOU) on May 3, providing for cooperation and joint action on a number of labor issues, including health and safety measures and labor standards and enforcement. In addition, United States and Mexican officials have agreed on joint projects to address specific concerns, including occupational health and safety, through the framework of the existing United States-Mexico Binational Commission (BNC). In March 1991, the two Governments agreed to create a Working Group on Labor Issues under the BNC. The working group is to hold its first formal meeting on September 9, 1991. The work under the MOU and under the BNC, according to the administration's May 1 action plan, will proceed in parallel with negotiations toward an FTA.

In the area of the environment, the May 1 action plan indicates that the administration "will seek a commitment to work together with Mexico to enhance environmental, health, and safety standards regarding products, and promote their enforcement." Among other things, this cooperation will involve consultations aimed at "enhancing enforcement capability, inspection training, monitoring, and verifications;" "enhancing product standards, subject to full public and scientific scrutiny of any changes before they would be implemented, to ensure that human, plant, and animal health and the environment are safeguarded;" and promoting "technical cooperation and training." The administration indicated that this program of cooperation will be developed in parallel with negotiations of the FTA. In addition, the administration has committed to "complete a review of U.S.-Mexico environmental issues" in time "to enable U.S. officials to consider the results during FTA negotiations and other bilateral efforts."

The May 1 statement suggests that in some areas, the United States may be working closely with Mexico to raise the level of protection provided in the areas of environmental protection, workplace health and safety, and control of agricultural pests and disease. This cooperation could involve expanded exchanges of scientific information and increased technical assistance to Mexico. The action plan indicated that the Mexican enforcement system is also likely to receive attention by U.S. regulatory agencies. Legal requirements in Mexico are sometimes as strict as those in the United States, but enforcement of such rules is widely seen as inadequate. Cross-training and added resources are among the options available to improve Mexico's track record on enforcement. In addition, measures to ensure autonomy and accountability may well lend credibility to Mexico's enforcement process.

Much work will be needed to achieve the degree of compatibility in regulations and enforcement mechanisms needed to permit unfettered trade among the three countries, and it is likely to be a matter of years before more confidence is achieved. Therefore, discussion of more difficult or specialized regulatory issues may be handled outside the formal NAFTA negotiating

structure and could continue beyond the formal conclusion of the NAFTA itself. The labor MOU is scheduled to remain in place for five years and the two sides have agreed on a plan of work that takes them into 1992. In the meantime, such agencies will likely want to be involved in the formal NAFTA negotiations to ensure that their regulatory concerns are not compromised, or, in the words of the administration, to guarantee that nothing in the FTA "weaken[s] our environmental laws" or diminishes "our right to protect the health, safety, and environment of Americans." Indeed, the May 1 plan states that "we will ensure the participation of those U.S. officials who are expert on the subject matter and who are responsible for maintaining the integrity of U.S. regulations."

The NAFTA negotiating structure announced on June 14 indicates that one of the negotiating groups will handle standards. Some of the areas in which the United States has some of the strongest regulatory concerns are toxic substances, food safety, and potentially other human health regulation. The U.S. Department of Agriculture, the EPA, and the U.S. Food and Drug Administration are among the agencies that will likely seek to ensure that the terms of the agreement do not jeopardize current levels of protection in the United States afforded under existing regulations and control procedures.

Market-Access Issues

Another concern will be to ensure that Mexico's regulations and standards do not become obstacles to U.S. exports. A trilateral factfinding meeting was held in Mexico City on May 14-16 to discuss Mexico's standards system. Because of the high level of engineering know-how embodied in these standards, Mexico said that it considers them to be a valuable tool in improving the international competitiveness of Mexican industry. Mexico has put in place a very elaborate system for the development and promotion of such standards. However, there appear to be opportunities to increase the system's accessibility to foreign suppliers, thus improving the prospects for U.S. sales in Mexico.

The Mexican side explained that the legal basis for the country's standards system is a January 1988 law.³ That law envisions the establishment of both mandatory and nonmandatory Mexican national standards (NOMs). The Ministry of Commerce and Industrial Development (SECOFI) is charged with managing Mexico's weights and measures system and coordinating the country's standardization ac-

³ The Federal Law on Metrology and Standardization became effective on the date it was published in Mexico's *Diario Oficial*, Jan. 26, 1988. See SECOFI, "The Mexican Standardization System," mimeo provided during trilateral consultations on May 16, 1991, and GATT, Committee on Technical Barriers to Trade, "Information on Implementation and Administration of the Agreement," TBT/I/add.36/supp.3, Jan. 18, 1989, reprinting a Jan. 17 submission by Mexico.

vities.⁴ Some 42 standards-drafting committees are currently working under the general guidance of the Directorate General of Normalization within SECOFI. Generally, these committees are composed of representatives from industry (producers and users), academia and professional societies, and interest groups (such as consumers and labor unions).

About 5,500 NOMs have been developed to date; 225 of them are mandatory, and the rest are voluntary. Mandatory standards (i.e., regulations) are in principle only employed to protect human health and safety, to protect consumers (e.g., by requiring the provision of certain commercial information), to safeguard animal and plant health, to protect the environment, and to facilitate the provision of essential services, such as telecommunications.⁵ Mandatory standards have already been promulgated on such subjects as measuring instruments and equipment, test methods to be used to obtain official certification, apparel, gas appliances, electrical equipment, and telecommunications apparatus intended to be connected to the basic network. About 5,225 voluntary standards have been drafted. One of the newest subjects for voluntary standardization has been quality assurance, for which a new work group was formed 2 years ago.

A sizeable number of Mexico's regulations and standards appear to be based on other foreign national or international standards, with many derived from U.S. standards developed by agencies like the EPA or the Occupational Safety and Health Administration (OSHA) and private organizations such as the American Society of Testing and Materials (ASTM), the Society for Automotive Engineers (SAE) and the Institute for Electronic and Electrical Engineers (IEEE).

Despite what appears to be de facto harmonization in these areas, several potential U.S. problems with Mexico's standards system are evident. It would appear that Mexico's ambitions have not always been matched by adequate technical infrastructure and enforcement mechanisms. Moreover, as described at the meeting, the process is less than transparent and permits only limited, after the fact, foreign influence. For example, there are no formal notifications of the initiation of standardization work and no mechanisms for the provision of draft standards to interested firms outside of Mexico.

Mexico has recently signed the MTN Agreement on Technical Barriers to Trade, also known as the Standards Code. However, Mexico does not appear to have a mechanism in place to implement its obligations under the code to provide an opportunity for foreign comment on mandatory standards prior to their implementation date. A recent case in point is textile-labeling rules imposed by Mexico in 1990.

⁴ The Directorate General of Standards (DGN) within the Ministry of Industry and Foreign Investment has primary responsibility for this function. SECOFI mimeo.

⁵ SECOFI, "The Mexican Standardization System," mimeo provided during trilateral consultations on May 16, 1991, p. 2, states that this policy is set forth in Mexico's national program for industrial modernization and foreign trade.

The regulations, which were not notified in advance to the GATT Standards Code as required and which were to go into effect the day after they were published in the *Diario Oficial*, imposed mandatory labeling requirements that U.S. producers claim are onerous. The labels would be required, for example, to include the name of the importer in Mexico, something that U.S. suppliers say is unreasonable, since production from a given lot may be destined for a number of different Mexican distributors. Recent reports suggest that the two sides are close to agreement on this dispute. In the meantime, the effective date of the new regulations has been postponed.

Foreign suppliers may also be disadvantaged by Mexico's product-approval system, which does not formally provide for acceptance of test results generated outside of Mexico or for the accreditation of foreign-based labs. Lack of such provisions appears to be a potential problem for industries such as telecommunications equipment, for which a "type-approval" is now required, although in practice Mexican officials have reportedly been willing to informally accept certifications by well-known bodies such as Underwriters' Laboratories. How long this willingness will continue is uncertain, however, if the reports by at least one U.S. maker of electrical appliances are any guide. The voluntary mark of quality also does not appear to be available to firms established outside of Mexico.

On a positive note, the Mexican Government said that it has decided to establish annual standardization work plans and that such plans will be made available to all interested parties. The Mexican side also indicated that it is willing to conclude agreements on the mutual recognition of test results with foreign governments. This position falls short of the direct acceptance of U.S. tests and conformity-assessment bodies being pushed for as part of the current renegotiation of the Standards Code (*IER*, December 1990) but could make sense in some areas regulated in both Mexico and the United States. Finally, although direct participation is not an option, the Mexican officials indicated a willingness to facilitate informal contacts between U.S. standards developers and their Mexican counterparts, something that may provide an indirect means of influencing emerging standards.

Possible Models

The FTA offers a potential vehicle for resolving U.S. market access concerns while retaining the United States' authority to set and enforce its own levels of acceptable risk in areas such as food safety. Among the possible models for NAFTA obligations on regulatory and voluntary standards are the GATT, the Standards Code, the United States-Canadian Free-Trade Agreement, and pending Uruguay Round agreements on technical barriers to trade and on sanitary and phytosanitary measures. All of these

agreements recognize the sovereign right of signatories to put in place measures to safeguard essential public policy goals such as the protection of human and animal health, the environment, and consumers, even though these measures have the effect of regulating, and often restricting, commerce. For example, prior approval is required before new pharmaceuticals or chemicals can be placed on the market, and the sale of plant products is strictly controlled to prevent the spread of damaging pests and disease. However, progressively greater discipline has been agreed to on how these measures will be undertaken in an effort to limit the potential that such measures can be used as disguised barriers to trade. Specifically:

- Article III of the General Agreement forbids signatories from imposing discriminatory requirements affecting the sale of the good. However, article XX(b) provides an exemption from this and other obligations if the adoption or enforcement of such measures is necessary to protect public morals or human, animal or plant life or health, to prevent deceptive practices, or to conserve exhaustible natural resources (provided in conjunction with measures to restrict domestic production or consumption). However, parties are required to ensure that "such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade."
- New GATT obligations on sanitary and phytosanitary measures are currently being contemplated by the Uruguay Round negotiating group on agriculture. Among other things, these new disciplines would obligate countries to ensure that sanitary and phytosanitary measures that affect trade are based on scientific evidence. Incentives are created to utilize international standards, although it is recognized that more strict domestic standards could be necessary. In cases where more strict standards are applied, such standards must not be inconsistent with sound scientific evidence or a chosen level of protection and must be the least trade-restricting method necessary to achieve the desired level of health and safety. In addition, there are provisions for the recognition of equivalent measures and disease- and pest-free zones, steps that can increase market access for foreign suppliers. There remain disagreements over certain issues being discussed in the sanitary and phytosanitary group. Final agreement on the disciplines spelled out above will require resolution of these issues and is tied to the fate of a final package of Uruguay Round results.

- The Tokyo Round Standards Code seeks to ensure that regulatory measures concerning health and safety, the environment, worker and workplace safety, and consumer protection are not "arbitrary or unjustifiable" and do not "have the effect of posing unnecessary obstacles to trade." Among other things, code signatories are required to provide advance notice of regulations that are not based on international standards and that could have a major impact on trade. They must also provide a reasonable opportunity for other parties to comment on such regulations. Moreover, the use of international standards as a basis for technical regulations is encouraged. As part of the Uruguay Round, the code's disciplines are being elaborated to encourage the acceptance of foreign-generated test results and to clarify the term "unnecessary obstacle to trade" to ensure that regulations are not unduly restrictive or out of date. Specifically, new language defines an unnecessary obstacle to trade as one that is "more trade-restrictive than necessary to fulfill a legitimate objective, taking account of the risks non-fulfillment would create." The code currently covers both industrial and agricultural regulations and standards, but revisions being considered in the Round would expand the code to include so-called processes and production methods (PPMs), which define regulatory requirements in terms of the types of process that must be used in the production of the good rather than the final characteristics of the product (*IER*, December 1990). It is anticipated that all regulations concerning sanitary and phytosanitary measures, including PPMs, will ultimately be disciplined under the sanitary and phytosanitary agreement rather than the Standards Code, however.
- Chapters 6 and 7 of the United States-Canadian FTA address industrial and agricultural regulatory trade issues. Among other things, these chapters seek to promote compatibility of regulations, standards, and procedures for product approval; to facilitate bilateral exchanges of information; and to encourage mutual recognition of tests and certification reports. Chapters 3 and 6 also require signatories to permit the accreditation of testing and certification organizations in the other party. Nine working groups were formed to implement commitments to harmonize or make compatible the two countries' standards and technical regulations in the agriculture field. "Compatible" was defined as a recognition that such measures or procedures are either technically identical or technically equivalent in practice. "Harmonize" implies an effort to amalgamate requirements that are not com-

patible. In addition, the private sector has been pursuing recognition of equivalent standards or harmonization in several fields, such as construction products.

Until the Uruguay Round, international discipline in the standards area did not distinguish between industrial products and agriculture. Indeed, the relationship between the ongoing sanitary and phytosanitary negotiations and the renegotiation of the Tokyo Round Standards Code has yet to be resolved. Moreover, such international disciplines have typically focused on regulated products, with only indirect efforts to ensure that nonmandatory standards do not pose obstacles to trade. It is not clear whether the NAFTA will retain these approaches, or develop additional disciplines in certain areas not now covered by international agreement.

In addition to ensuring that the NAFTA is not accompanied by a reduction in current levels of U.S. protection, the NAFTA negotiating group on standards-related trade rules will be the forum for crafting disciplines to ensure that standards regulations are legitimate and do not pose unnecessary obstacles to trade. Among the possible options to achieve these objectives are mechanisms to make Mexico's standards-drafting process more transparent and predictable, to allow foreign suppliers reasonable opportunities to comment on draft rules and sufficient time to adapt to final ones, and to permit more ready acceptance of U.S.-generated test results.

At the same time, the NAFTA talks appear to be fostering expanded United States-Mexican technical cooperation at both the governmental and private sector levels. The Mexican side indicated an eagerness to build on the cooperative efforts by United States and Canadian standardization organizations (which have already resulted in several "harmonized standards") and to engage in a dialogue with their counterpart private organizations in the United States. The American National Standards Institute is scheduled to meet with its Mexican and Canadian counterparts on August 1 and 2 to begin discussions on possible means of private sector cooperation. There also appear to be opportunities for expanding technical cooperation between agencies such as the U.S. Department of Commerce's National Institutes of Standards and Technology (NIST) and its Mexican counterpart, INFOTEC.

The timing could be fortuitous, since in at least some areas—such as pressure vessels, personal protective devices, medical equipment, and machinery safety—Mexico's plans to develop new standards are leading it to use as models standards developed in the EC as part of its 1992 program. All the major European standardization institutes already maintain an active liaison program with Mexico, and CEN/CENELEC and the EC Commission have recently indicated their interest in promoting European and member-state standards abroad. This established liaison may not necessarily be a problem for U.S. industry, since producers in areas such as mobile machinery, having successfully worked to influence

European standards, have intimated that it would be desirable for such standards to be applicable in other parts of the world. On the other hand, as an earlier article in this issue makes clear, standards remain one of the issues U.S. industry continues to stress as important to watch with respect to the EC 1992 program. Indeed, there is some concern that the deeper pockets of countries such as Germany and Japan in supporting Mexico's standards infrastructure may still

give them a leg up on the United States in influencing Mexico's developing standards, testing, and certification system. In the past, this influence has been a factor in keeping U.S. suppliers out of Mexico's market, for example in telecommunications equipment, where Sweden's Ericsson has dominated for some time because of its early influence over the technical specifications developed for Mexico's communications network.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1988–April 1991
(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1990							1991					
	1988	1989	1990	II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States	5.4	2.6	1.0	4.3	4.0	-7.2	-17.1	-11.5	-9.6	-6.5	-9.7	-7.7	1.1
Japan	9.5	6.2	4.6	7.7	9.8	7.1	-8.9	-8.1	-1.4	17.1	-6.3	-19.4	3.9
Canada	4.4	2.3	0.3	0.7	0.5	4.7	2.2	0	-0.7	1.1	-6.3	-6.3	-3.2
Germany	3.2	5.2	5.9	0.8	8.5	6.7	-2.9	2.0	(1)	(1)	-10.3	(1)	(1)
United Kingdom	3.7	0.3	-0.8	7.3	-12.4	-6.1	-16.4	-7.6	-0.4	-7.7	21.2	2.3	(1)
France	4.1	3.6	1.0	6.1	6.0	-10.4	-21.8	-17.8	0.4	2.8	-11.0	-27.8	(1)
Italy	6.9	3.9	-0.7	1.0	-1.2	-8.1	-12.5	-1.0	3.9	6.7	-13.4	2.1	(1)

¹ Not available.

Note—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.
Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 28, 1991.

Consumer prices, by selected countries and by specified periods, January 1988–April 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1990							1991					
	1988	1989	1990	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States	4.1	4.8	5.4	6.9	7.0	7.5	3.7	3.6	3.5	5.5	2.7	-0.9	2.7
Japan	0.7	2.3	3.1	3.2	6.2	12.9	5.7	1.1	4.7	12.5	-2.5	1.8	-1.7
Canada	4.0	5.0	4.8	4.1	6.9	10.3	8.3	2.1	11.5	33.2	-2.7	5.1	2.5
Germany	1.3	2.8	2.7	3.6	4.3	8.4	-2.3	1.4	1.4	2.1	1.7	1.6	2.5
United Kingdom	4.9	7.8	9.5	9.3	6.3	7.8	-2.2	5.0	4.2	4.5	4.4	5.3	2.4
France	2.7	3.5	3.4	4.2	4.5	6.0	-0.5	1.7	2.3	4.7	2.2	1.1	1.3
Italy	5.0	6.6	6.1	7.2	6.9	6.5	6.8	6.1	6.9	6.8	8.6	4.7	5.7

¹ Not available.

Note—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.
Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 28, 1991

Unemployment rates, (total labor force basis)¹ by selected countries and by specified periods, January 1988–April 1991

(Percent)

Country	1990							1991					
	1988	1989	1990	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	5.4	5.2	5.4	5.8	5.8	6.0	6.4	6.1	6.4	6.8	6.5	6.9	7.0
Japan	2.5	2.3	2.1	2.1	2.1	2.0	2.1	2.0	2.0	2.1	(4)	(4)	(4)
Canada	7.7	7.5	8.1	9.1	9.0	9.3	10.1	9.6	10.2	10.4	10.2	(4)	(4)
Germany	6.2	5.6	5.2	4.8	4.7	4.7	4.5	4.5	4.5	4.4	4.4	(4)	(4)
United Kingdom	8.2	6.4	6.4	6.7	6.7	7.0	8.1	7.7	8.1	8.5	8.9	(4)	(4)
France	10.1	9.9	9.2	9.2	9.4	9.3	9.2	9.2	9.2	9.3	9.4	(4)	(4)
Italy ²	7.8	7.7	6.9	6.8	(3)	(3)	7.1	(3)	(3)	(3)	(3)	(3)	(3)

¹ Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

² Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11–12 percent in 1988–1990.

³ Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

⁴ Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, July 1991.

Money-market interest rates,¹ by selected countries and by specified periods, January 1988–May 1991
(Percentage, annual rates)

Country	1990							1991							
	1988	1989	1990	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	7.8	9.3	8.3	8.2	8.1	8.1	8.0	7.8	6.8	7.2	6.5	6.5	6.1	5.9	6.1
Japan	4.4	5.3	6.9	6.9	7.5	(2)	7.5	7.7	7.7	(2)	7.7	7.7	(2)	(2)	(2)
Canada	9.6	12.2	13.0	13.1	12.3	12.5	12.4	11.9	10.5	11.1	10.4	9.9	9.6	(2)	(2)
Germany	4.3	7.0	8.5	8.4	8.9	8.6	8.9	9.2	9.1	9.3	9.0	9.1	9.1	(2)	(2)
United Kingdom	8.9	13.3	14.8	14.9	13.8	13.9	13.6	13.8	13.1	13.9	13.1	12.4	11.8	(2)	(2)
France	7.9	9.2	10.3	10.2	10.1	10.0	10.1	10.2	9.7	10.3	9.6	9.4	9.2	(2)	(2)
Italy	11.0	12.7	12.7	11.8	13.0	11.7	13.1	14.0	14.0	11.1	12.3	12.4	11.9	(2)	(2)

¹ 90-day certificate of deposit.² Not available.

Note—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.
 Source: *Federal Reserve Statistical Release, April 22, 1991* *Economic and Energy Indicators*, Central Intelligence Agency, June 28, 1991.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1988–June 1991

(Percentage change from previous period)

Item	1990							1991						
	1988	1989	1990	IV	Nov.	Dec.	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.
Unadjusted:														
Index ¹	88.0	91.3	86.5	81.7	81.1	82.2	82.8	87.7	82.2	81.1	87.4	86.8	87.3	89.0
Percentage change	-6.5	6.4	-5.3	-4.2	-8	1.3	1.3	5.6	0	-1.3	7.2	-7	.6	1.9
Adjusted:														
Index ¹	87.4	91.8	88.1	84.1	83.4	84.7	85.2	89.6	84.9	84.0	85.1	89.1	89.3	90.8
Percentage change	-4.8	6.8	-4.0	-3.1	-5	1.5	1.3	4.9	.2	-1.1	1.3	4.5	.2	1.6

¹ 1980–82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.
 Source: Morgan Guaranty Trust Co. of New York, July 1991.

Trade balances, by selected countries and by specified periods, January 1988–April 1991

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1988	1989	1990	1990					1991					
				II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
United States ¹	-118.5	-109.1	-100.5	-90.8	-104.4	-104.4	-114.4	-75.9	-68.4	-88.5	-66.0	-48.8	-54.0	-54.9
Japan	94.9	77.4	63.2	57.6	65.2	66.0	66.0	68.4	87.2	81.6	78.0	102.0	93.6	(3)
Canada	8.2	5.9	9.3	10.4	11.2	9.6	12.0	10.8	7.2	2.4	7.2	12.0	(3)	(3)
Germany ²	72.9	72.0	60.4	67.2	50.0	32.8	13.2	26.4	11.6	-3.6	25.2	13.2	(3)	(3)
United Kingdom	-37.5	-39.3	-32.0	-35.6	-28.0	-23.2	-24.0	-19.2	-21.6	-30.0	-16.8	-18.0	-18.0	(3)
France	-5.5	-7.0	-9.4	-7.6	-15.6	-13.6	-1.2	-21.6	-10.4	-13.2	-8.4	-9.6	-4.8	(3)
Italy	-11.1	-13.0	-11.8	-8.0	-12.0	-17.2	-33.6	4.8	-3.6	-20.4	-6.0	14.4	-20.4	(3)

¹ 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

² Imports, c.i.f. value, adjusted.

³ Not available.

Note—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 28, 1991 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 18, 1991

U.S. trade balance,¹ by major commodity categories, and by specified periods, January 1988–May 1991

(In billions of dollars)

Country	1988	1989	1990	1990					1991					
				II	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
Commodity categories:														
Agriculture	13.9	17.9	16.3	3.3	4.2	1.2	1.6	1.4	4.4	1.2	1.6	1.6	1.0	1.0
Petroleum and selected products—(unadjusted)	-38.1	-44.7	-54.6	-13.5	-16.2	-6.4	-5.4	-4.3	-10.4	-4.5	-2.8	-3.1	-3.3	-3.3
Manufactured goods	-146.1	-103.2	-90.1	-27.0	-24.3	-10.4	-8.6	-5.3	-14.7	-5.8	-5.7	-3.2	-3.6	-3.8
Selected countries:														
Western Europe	-12.5	-1.3	4.0	-.8	.6	-.6	-4	1.6	5.7	1.1	1.4	3.2	2.1	1.3
Canada ²	-9.7	-9.6	-7.5	-2.7	-2.8	-1.3	-6	-9	-1.4	-4	-5	-5	-2	-3
Japan	-51.7	-49.0	-41.0	-9.9	-11.7	-4.5	-3.8	-3.4	-10.3	-3.5	-3.2	-3.6	-3.3	-2.4
OPEC (unadjusted)	-8.9	-17.3	-24.3	-6.6	-7.1	-2.7	-2.5	-1.9	-4.3	-2.0	-1.3	-1.0	-1.0	-1.3
Unit value of U.S. imports of petroleum and selected products (unadjusted) ³	\$18.12	\$16.80	\$20.34	\$19.45	\$28.20	\$30.09	\$29.56	\$25.70	\$19.57	\$22.98	\$18.58	\$17.15	\$16.40	\$16.55

¹ Exports, f.a.s. value, unadjusted; 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

² Beginning with February 1987, figures include previously undocumented exports to Canada.

³ Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 18, 1991.

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